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FM AMEMBASSY PANAMA  
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RUEHCV/AMEMBASSY CARACAS 1090  
RUEHDO/AMEMBASSY DOHA 0003  
RUEHME/AMEMBASSY MEXICO 3375  
RHMFISS/DEPT OF ENERGY WASHINGTON DC

C O N F I D E N T I A L PANAMA 002412

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E.O. 12958: DECL: 12/11/2016  
TAGS: [ENRG](#) [ETRD](#) [PGOV](#) [PM](#)  
SUBJECT: REFINERY, FUEL HUB AND BIOFUELS DEVELOPMENTS

REF: A. PANAMA 2005  
[1](#)B. PANAMA 1999

Classified By: CDA L.ARREAGA FOR 1.4 REASONS (B) AND (E)

[1](#)1. (C) SUMMARY. In November, representatives from state-run Qatar Petroleum (QP) and Occidental Petroleum (Oxy) met with Panama's Ministry of Industry and Commerce (MICI) to discuss the proposed refinery and tour the Puerto Armuelles site (Ref A). Favorably impressed with Panama's economic and political stability as well as the feasibility of the project, QP subsequently invited Oxy representatives to a follow up meeting in Qatar the week before Christmas. In unrelated meetings, Exxon-Mobil and Chevron-Texaco executives told Emboffs that the economics of a Central American refinery did not add up regardless of who built it. In December, Chevron advised MICI and the Embassy of an intended \$11 million project to create a regional fuel storage hub on Panama's Atlantic coast. In September, Texas Biodiesel and Iowa's Triple F Incorporated report multimillion dollar contracts with Panama's Chiriqui Palm Oil Cooperative for a 150,000 barrels per day biofuel plant. END SUMMARY.

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OXY, QATAR PETROLEUM AND GOP DISCUSS REFINERY  
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[1](#)2. (C) On November 15, Oxy and QP met with MICI Development Director Julio Fabrega, Hydrocarbons Director General Wolfram [1](#)E. Gonzalez and other MICI staff to discuss Panama's economy, investment climate and the refinery project. (Vice Minister Manuel Jose Paredes reportedly stopped by to greet the QP representatives.) QP also toured the Panama Canal and got an initial look at Panama's transportation and logistics capabilities. On November 16, Oxy and QP flew to David and on to Puerto Armuelles to tour the proposed refinery site and meet with representatives from the port management company, Petro Terminales Panama (PTP).

[1](#)3. (C) The visit was QP's initial introduction to Panama and focused as much on Panama's political and economic climate as the fundamentals of the refinery project. According to Oxy project manager the next step in securing QP's commitment to the project is an additional feasibility study of six to nine months to better quantify the capital costs of the project. The need for more detailed cost studies moves the timeline for this project out almost a year with startup projected for late 2012. Oxy's project manager told Econoff that the participation of additional partners would depend on QP's decision to participate and at what funding level.

[1](#)4. (C) Oxy Project Manager told Econoff that the estimated capital costs for the project are now \$7 to \$9 billion (up from an initial estimate of \$5 to \$6 billion) as a result of

an estimated 25-30% annual increase in worldwide costs for construction of this type. According to Oxy, the key components in the increased cost are high global steel prices and increased demand for the services of global companies with the requisite expertise. Oxy stated that since most of the construction material comes from outside Panama, they will "pre-fab" or build as much of the components as possible outside of Panama and assemble the pieces at the site.

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THE VIEW FROM THE MAJORS  
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¶5. (SBU) In an unrelated meeting, Exxon-Mobil Latin American Regional Manager and Panama Country Manager told Ambassador that there was no business case to build a refinery anywhere in Central America and that expanding refinery capability was not part of Exxon-Mobil's strategy for the foreseeable future.

¶6. (SBU) Chevron-Texaco Latin American Marketing Manager Rafael Williamson told Econoff that the economics of a Central American refinery did not add up. Williamson told Econoffs that strategically located refineries are either collocated with major source(s) of supply or major points of consumption. Williamson stated the Central American and Caribbean markets represent less than 1% of the global consumption. He also expressed doubt regarding the reliability of the supply/production data for the closest major suppliers, Mexico and Venezuela, which is critical to determining the return on investment for the project.

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CHEVRON TO CREATE REGIONAL FUEL STORAGE HUB IN PANAMA  
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¶7. (SBU) Chevron executives advised MICI on December 12 of plans to invest \$11 million in the refurbishment of existing tanks located on the Atlantic coast (Ref B) to creating between 1.5 and 2.0 million barrels of fuel storage capacity. In a subsequent meeting with Econoffs the same day, Chevron representatives stated the project would enhance the security of their supply chain for their Central American market - Panama, Guatemala, Honduras and El Salvador. The project is estimated to take eight to ten months and require over 300 locally contracted workers. \$4 million of the estimated \$11 million is expected to be spent in Panama.

¶8. (SBU) Chevron executives stated an existing Panamanian Chevron subsidiary already has the requisite environmental permitting and the project can commence after the new year. Chevron executives are scheduled to meet with Panama's environmental regulatory agency (ANAM) before Christmas to clarify the status of their environmental permits. Comment: Post suspects that this project may not sail through ANAM without some further scrutiny. End Comment.

¶9. (SBU) According to Chevron executives, MICI's response to the project was favorable. Predictably, Chevron was asked by MICI if the price of fuel in Panama would decrease as a result (no) and whether fuel storage capacity would be made available to other entities (it depends). Without directly rejecting storage of Venezuelan fuel, Chevron executives stated that Chevron only accepted product from suppliers meeting their strict safety, quality, and environmental standards.

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BIOFUELS UPDATE  
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¶10. (U) On September 23, Houston-based Texas Biodiesel (TB), signed an MOU with the Chiriqui Palm Oil cooperative to build and manage a biofuel plant with President Torrijos present at the signing. TB states the estimated \$143 million dollar plant will produce 150,000 barrels of biofuel a day and increase local employment by 400%. TB is helping to secure the funding and another U.S. company is supplying the equipment for the plant. TB also reports that Iowa-based

Triple F Incorporated entered into an agreement with the cooperative to build a \$2.6 million extraction plant.  
Arreaga